HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

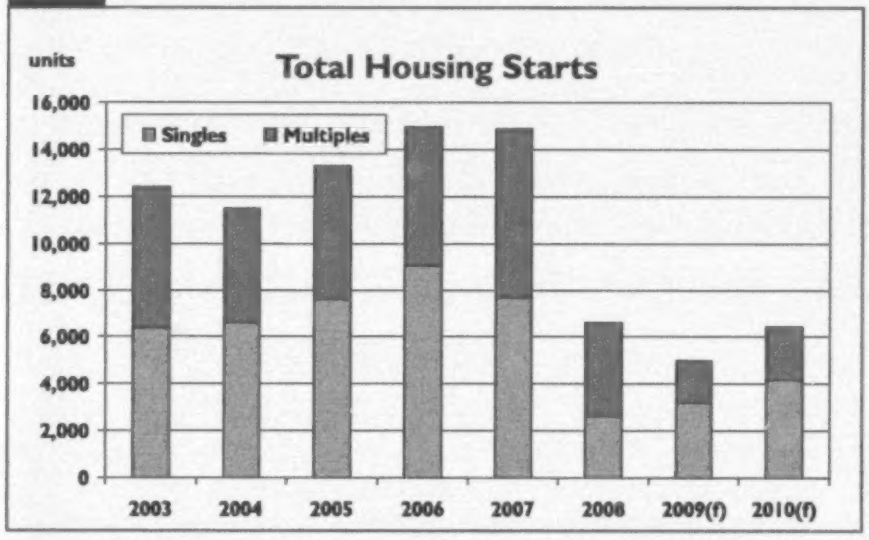
Date Released: Fall 2009

NEW HOME MARKET

Housing Starts Improve in 2010

[1]Following a 56 per cent decline in 2008, total housing starts across the Edmonton Census Metropolitan Area (CMA) are on pace to decrease by another 24 per cent this year to 5,000 units. This will represent the lowest level of activity for the region's home builders since 1997. While single-detached construction has staged a modest recovery since the summer, a continued downturn in the multi-family sector will hold down this year's numbers. In 2010, a sustained improvement in single starts combined with a moderate rebound in multiples will boost total starts by 29 per cent to 6,450 units. While representing a sizable gain over this year's volumes, total starts next year

Figure 1



Source: CMHC, CMHC Forecast

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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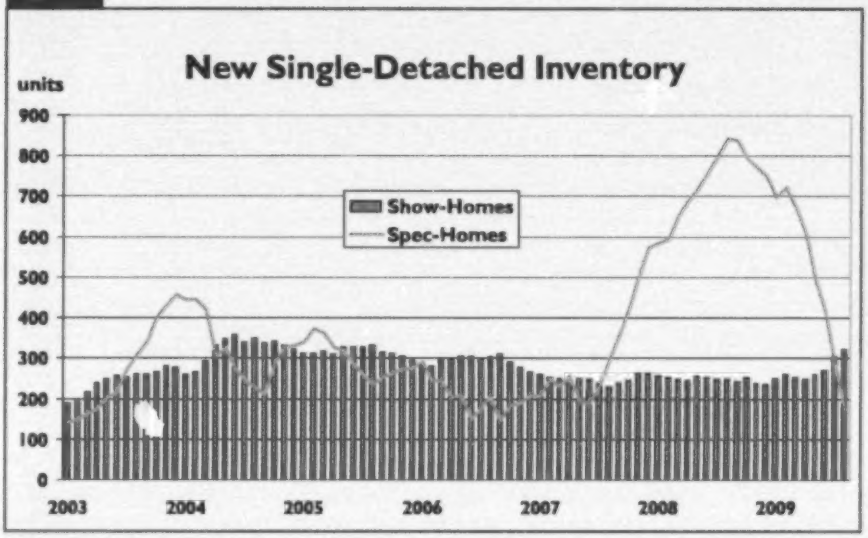
Figure 2



Source: CMHC, August 2009

remain a fraction of the 10,600+ units started on average during the 10 year period 1999-to-2008.

Single-detached Starts on Rebound

Single-detached starts increased by 14 per cent during the first nine months of 2009 but the improvements have come on gradually as the year has progressed. Activity levels were down by 39 per cent year-over-year at the end of the first quarter but have generally exceeded last year's production since then. Price reductions, various incentives, and low mortgage rates have helped to bolster demand in 2009. This trend should continue for the balance of 2009, with annual production nearing the 3,200 unit mark. This will represent an increase of 22.5 per cent over 2008 but will still be well below activity levels reported over the past decade. Look for these gains to continue in 2010, with single starts of around 4,200 units. The tepid outlook for employment growth will temper the rate of increase going into 2010.

Inventory levels, including show homes, peaked in August 2008 and have been trending downward throughout much of the past year. As shown in Figure 2, the show home component of inventory has started to move upward as builders ramp-up marketing efforts. The inventory of complete and unabsorbed spec homes, meanwhile, has trended to its lowest levels since September 2006.

Price Pressures to Return in 2010

Statistics Canada's New House Price Index (NHPI) is forecasted by CMHC to decrease by 10.5 per cent this year before staging a two per cent improvement in 2010. These price changes have begun to show up in CMHC's market absorption surveys but the overall average absorbed price has held up surprising well in 2009. To the end of August, the average absorbed price increased this year nine per cent to $545,327. While units priced under $400,000 and over $600,000 have gained market share this year, mid-range product selling between $400-600,000 lost ground compared with last year.

CMHC forecasts an average absorbed single-detached price this year of close to $535,000, for a 4.5 per cent

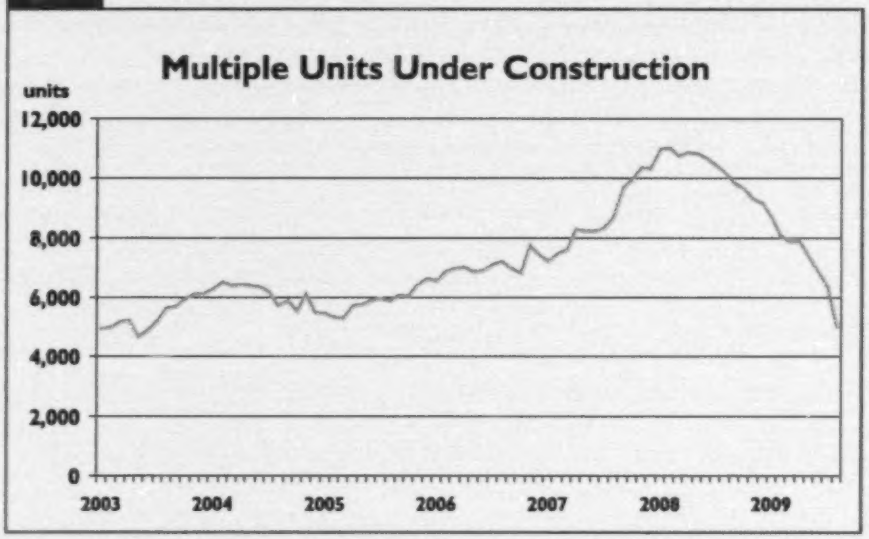
Table 1
New Single-Detached Absorptions by Area
January - August (% chg 2008/2009)

	Absorptions			Average Price ($)		
	2008	2009	%chg	2008	2009	%chg
North Central	56	68	21.4	549,432	777,917	41.6
Northeast	254	108	-57.5	452,043	486,552	7.6
Northwest	396	175	-55.8	452,604	479,887	6.0
South Central	33	44	33.3	787,561	826,406	4.9
Southeast	472	318	-32.6	463,786	476,307	2.7
Southwest	742	293	-60.5	567,667	645,635	13.7
West	352	179	-49.1	548,017	561,333	2.4
Total Edmonton City	**2,305**	**1,185**	**-48.6**	**513,516**	**563,295**	**9.7**
Fort Saskatchewan City	154	119	-22.7	490,366	431,085	14.9
Leduc City	277	180	-35.0	453,118	463,668	2.3
Parkland County	151	156	3.3	467,260	561,270	20.1
Spruce Grove City	324	123	-62.0	379,271	397,360	4.8
St. Albert City	161	80	-50.3	646,036	649,963	0.6
Stony Plain Town	120	37	-69.2	340,345	355,646	4.5
Strathcona County	440	242	-45.0	600,814	685,414	14.1
Total Rural Municipalities	**2,240**	**1,315**	**-41.3**	**483,765**	**526,673**	**8.9**
Grand Total	**4,509**	**2,500**	**-44.6**	**498,961**	**544,137**	**9.1**

Source: CMHC

gain over 2008. The expected median value will be much lower as the impact of high-priced homes is less using this measure. In 2010, the absorbed average price will soften due to the lagged effect of when homes are priced (often before construction begins) and when they are captured in our survey (which is at completion). The pressure for higher negotiated selling prices will come from builders who had trimmed their margins over the past year in order to clear their unsold inventory. With better economic times ahead, land and labour costs as well as material prices such as lumber and concrete are expected to increase.

Figure 3



Source: CMHC, August 2009

Multiple Starts Slow to Recover

Multi-family starts in the Capital region will end 2009 near 1,800 units, representing a 55 per cent decrease from 2008 and the lowest level since 1997. Multiple dwelling completions have increased in 2009, with inventories in August almost 2.5 times the volume tallied this time last year and representing the highest level since May 2006. The elevated inventory of condo apartments is putting a damper on starts by making presales more difficult to achieve. However, units under construction in August were down 50 per cent from a year prior and at the lowest level since mid-2003. With starts expected to remain weak in the coming months, inventory levels should move past their peak in early 2010 as completion levels moderate.

Multi-unit starts will also be tempered in the coming months by a number of projects that were halted after the initial construction phase. These units were counted as starts but were subsequently moved into the inactive status and will return to the under construction count once activity resumes. Production in 2010 is expected to improve to 2,250 units. While this level of activity will exceed 2009 by 25 per cent, it will still represent less than half the average volume achieved during the ten-year period 1999-to-2008.

Medium-density multi-family (semi and row) starts are expected to rebound faster than high-rise apartments since current supply levels (units under construction + inventory) are comparatively lower. The apartment sector, in particular high-rise condominiums in the downtown area, will be slowest to recover in 2010 due to the volume of supply in place and the estimated time required to clear this product from the market. Substantive improvements in high-rise activity are unlikely to occur until 2011.

The price of land, servicing, materials and labour are helping to reduce the costs faced by multi-family developers. Statistics Canada's Edmonton Apartment Construction Price Index was down 15 per cent during the second quarter from the peak levels reported in the third quarter of last year. This situation is likely to reverse later in 2010 as the overall economy improves, housing activity rises, and non-residential construction gathers strength.

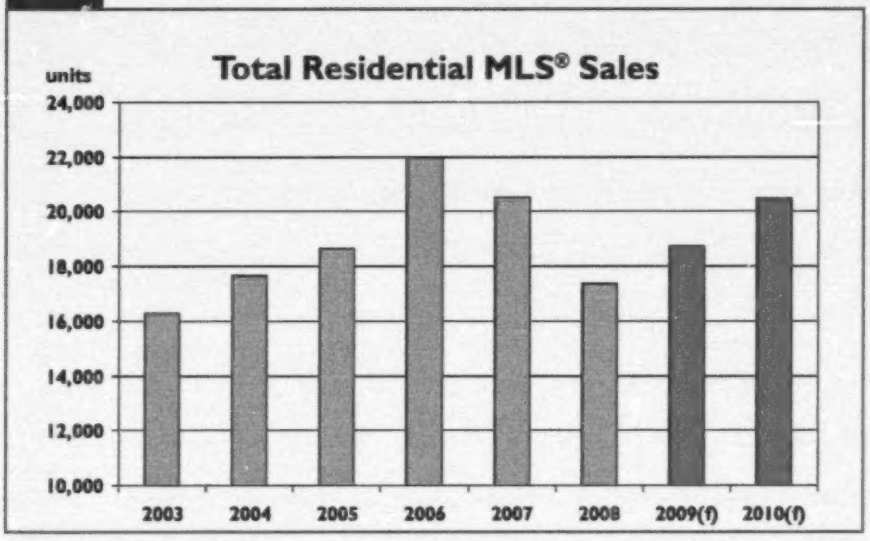
RESALE MARKET

Existing Home Sales Strengthen

Residential MLS® sales in Edmonton will increase this year by eight per cent to 18,750 units. This follows a 15 per cent decline in 2008 to 17,369 units which represented the slowest year for Realtors® since 2003 (see Figure 4). Provided the economy and interest rates perform as expected, CMHC looks for the upward trend to remain in place during 2010. Total sales are forecast to rise another 9.3 per cent to 20,500 units which would mirror the second best year on record achieved in 2007.

Some pent-up demand accumulated across Metro during the latter months of 2008 and the first quarter of 2009

Figure 4



Source: RAE, CMHC Forecast.

as consumers weathered a barrage of bad news about the global economy as well as prospects closer to home. But a rebound in sales has been evident since the spring as the economy has shown moderate signs of improvement and carrying costs have remained affordable. During the second and third quarters, market activity surged year-over-year by double-digit per cent change levels (seasonally adjusted). However, these levels of increase will not be sustainable in the longer-term. While low mortgage rates remain a dominant factor, the release of demand that was pent-up during the recent sales slump implies that activity will moderate during the final months of 2009 and into the new year.

Increased sales and reduced new listings have combined to lower supply levels on Edmonton's resale market this fall. Active listings in September were 31 per cent below the same time in 2008. Average listing periods during the third quarter were around 23 per cent below the values reported a year prior. The residential sales-to-active listings ratio averaged close to 29 per cent during the third quarter, indicative of a balanced market. Despite the gains in market balance, price movement has been muted by stronger demand from entry-level buyers.

Home Prices Firm as Market Balance Improves

Resale home prices to the end of September were down by 4.5 per cent from the first nine months of 2008 to an average of $320,764. With the buyers' market giving way to more balanced conditions this spring, the extended period of month-over-month price declines that began in mid-2007 has largely subsided. While moderate increases are anticipated month-over-month for the balance of the year, the overall average MLS® price will end 2009 close to $322,000, representing a decrease of 3.3 per cent from the 2008 average. Market conditions will be largely balanced in 2010 and this will translate into modest price gains throughout the year. We look for the average resale price to increase by 3.4 per cent to around $333,000.

Costs of Home Ownership Higher in 2010

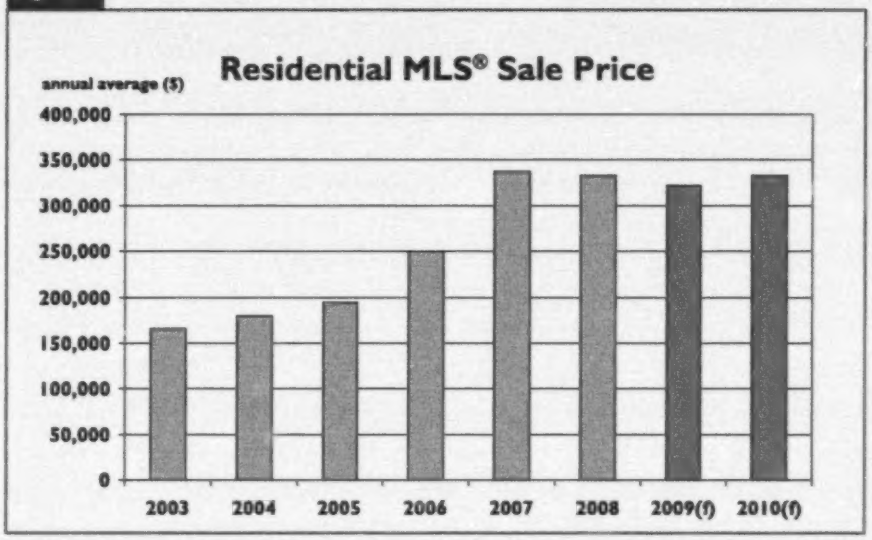
Reduced mortgage rates combined with lower prices have eased carrying

Table 2
MLS® Sales - Single-Detached Units
January - August (% chg 2008/2009)

	Sales			Average Price ($)		
	2008	2009	%chg	2008	2009	%chg
Northwest	265	276	4.2	339,120	307,514	-9.3
North Central	1,111	1,289	16.0	367,988	344,021	-6.5
Northeast	313	309	-1.3	313,182	284,722	-9.1
Central	226	224	-0.9	275,643	243,131	-11.8
West	792	900	13.6	430,939	423,391	-1.8
Southwest	1,118	1,213	8.5	476,508	458,600	-3.8
Southeast	1,163	1,220	4.9	366,346	344,626	-5.9
St. Albert	577	658	14.0	445,946	409,610	-8.1
Sherwood Park	678	712	5.0	430,920	403,248	-6.4
Leduc	234	241	3.0	352,014	336,260	-4.5
Spruce Grove	319	298	-6.6	370,237	344,026	-7.1
Stony Plain	130	173	33.1	374,685	329,429	-12.1
Ft. Saskatchewan	189	207	9.5	389,878	358,880	-8.0
All RAE areas	**8,355**	**8,909**	**6.6**	**381,137**	**362,551**	**-4.9**

Source: Realtors Assoc. of Edmonton

Figure 5



Source: RAE, CMHC Forecast

costs in Edmonton and helped draw purchasers back into the market. Substantial gains have been made since prices peaked in the summer of 2007. The carrying costs associated with the purchase of a typical resale home in Edmonton during 2009 will average 15 per cent below 2008 levels thanks to falling resale prices and substantial reductions in mortgage rates. However, this turn-around in affordability levelled off in mid-2009 as tighter market conditions allowed prices to firm up. With mortgage rates considered at the bottom of the cycle and prices set to rise, we look for higher carrying costs in 2010 to put some constraints on demand growth going forward.

RENTAL MARKET

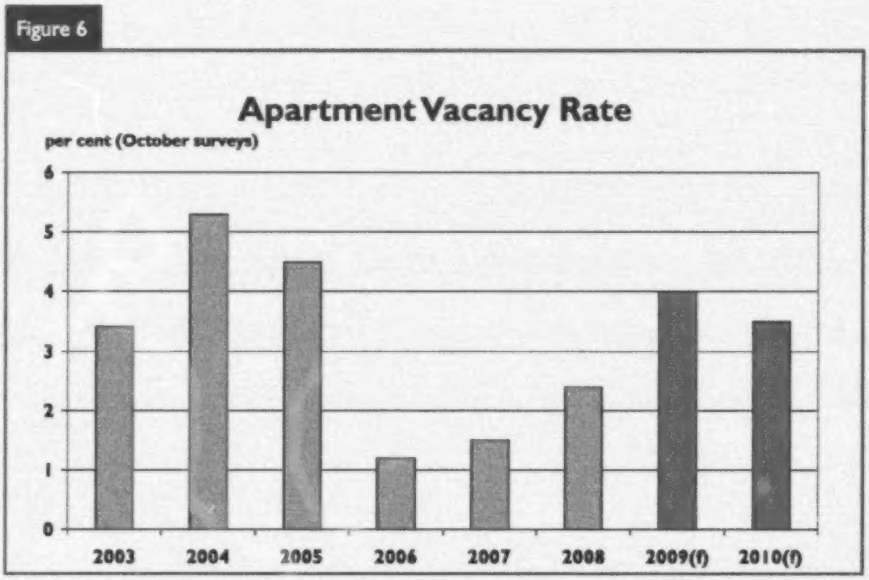
Vacancies Peak in 2009

Apartment vacancy rates across Greater Edmonton will continue to trend upward in 2009, but landlords should see a turnaround in 2010 provided economic conditions improve. CMHC's April 2009 Rental Market Survey found a Metro-wide apartment vacancy rate of 4.7 per cent compared with 3.4 per cent a year prior. While seasonal factors often lift the vacancy rate in the spring survey, CMHC does not anticipate much tightening for the remainder of 2009. Expect a vacancy rate of close to four per cent this October, well above the 2.4 per cent rate captured in the October 2008 survey and representing the highest fall vacancy rate since 2005. Vacancies have been trending upward due to rising unemployment, an increase in homeownership demand and a steady influx of condominium units that have been purchased by investors and injected into the rental market. In 2010, a reduction in apartment completions combined with strengthening demand should allow vacancies to move down toward the 3.5 per cent level by the fall.

Rental Rates Increases Return in 2010

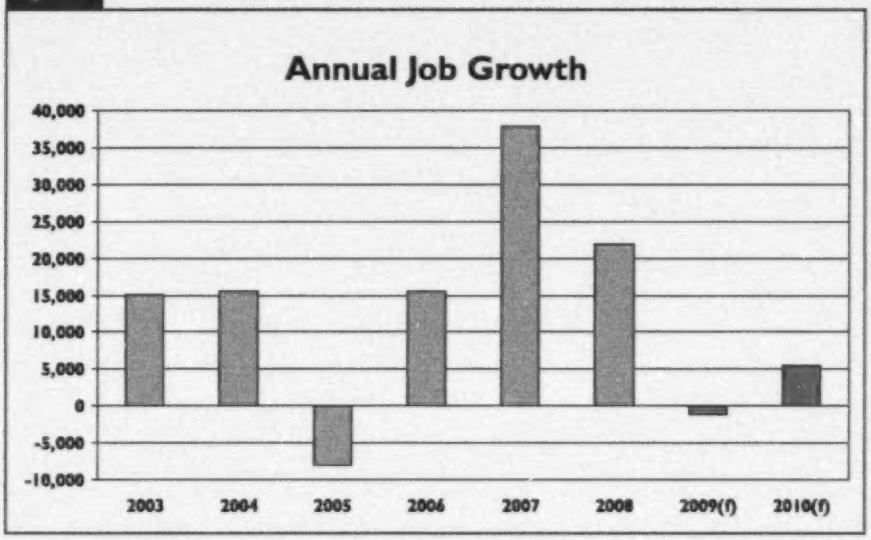
Rather than reduce posted rents to help maintain occupancy levels, many landlords are offering incentives such as one month's free rent, decreased security deposits and move-in allowances. While our April 2009 rental survey reported some year-over-year upward movement in apartment rents across the region, we expect this fall's survey to show rents are largely unchanged from the levels reported in October 2008.

Figure 6



Source: CMHC, CMHC Forecast

Figure 7



Source: Statistics Canada, CMHC Forecast

With vacancy rates starting to subside in 2010, property owners will be looking to raise rents to offset rising operating costs, in particular utilities and property taxes. A typical two-bedroom apartment will rent for close to $1,070 by October 2010, for an increase of around $35 per month on average compared to October 2009.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.es

ECONOMIC OUTLOOK

Recovery Starting to Take Shape

The anticipated return to growth in the region's economy this fall should translate into a sustained but gradual improvement in housing demand going into 2010. With commodity prices expected to rise, this will bolster overall economic activity and shore-up business investment and modestly expand payrolls. A growing economy should encourage increased in-migration in 2010, but the numbers will remain below the previous peak levels of 2005-2006 due to the slow recovery in job creation and higher unemployment rates.

Despite the slowdown in job creation this year and the upward trend in the jobless numbers, income levels have held up reasonably well. Average weekly earnings from the labour force survey were up by 5.4 per cent on a year-to-date basis to the end of August. Employment growth in 2010 should help to elevate consumer spending. But the overall gains will be modest by the standards set this decade (see Figure 7) and without sizable gains in job numbers, the recovery in new home construction will fall short of the levels seen between 2002 and 2007. Improvements in the unemployment rate will be slow to arrive since job growth typically lags a turn-around in economic output.

Lower construction costs combined with an expected rise in energy prices should cause investment to bounce back in 2010. Energy exports should improve in 2010, with commodity prices expected to average at higher levels than witnessed in 2009. Natural gas prices could recover by the first half of 2010 but are currently hampered by weakened demand and high storage levels. Reduced drilling activity and higher industrial demand associated with an improving economy should lead to better export prices in 2010.

Edmonton's office market has seen increased vacancies and sublet rates this year as companies seek to reduce their operating costs. While leasing activity should improve in 2010, a new

office tower is expected to inject a sizable quantity of space into the Class A office market in late 2011. This will moderate the recovery in non-residential construction and may benefit home builders indirectly on the cost side.

Alberta Finance's first quarter fiscal update, released in late August, noted that the provincial deficit will be $2.2 billion higher than originally forecasted in the 2009 Budget, due to weaker-than-forecast natural gas prices. While the Alberta government intends to continue investing in public infrastructure to support jobs and the economy, it is also committed to trim operating expenses. Government plays a major roll in Edmonton's economy and talk of fiscal retrenchment could temper the confidence of consumers working in the public sector. Despite these concerns, continued spending on big-ticket transportation infrastructure projects will provide some support to non-residential construction moving forward.

Forecast Summary Edmonton CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	21,984	20,427	17,369	18,750	8.0	20,500	9.3
MLS® New Listings	25,393	40,708	40,059	30,000	-25.1	28,000	-6.7
MLS® Average Price ($)	250,915	338,636	332,852	322,000	-3.3	333,000	3.4
New Home Market							
Starts:							
Single-Detached	9,064	7,682	2,613	3,200	22.5	4,200	31.3
Multiples	5,906	7,206	4,002	1,800	-55.0	2,250	25.0
Starts - Total	14,970	14,888	6,615	5,000	-24.4	6,450	29.0
Average Price ($):							
Single-Detached	308,726	438,866	511,989	535,000	4.5	520,000	-2.8
Median Price ($):							
Single-Detached	282,500	409,900	471,850	470,000	-0.4	470,000	0.0
New Housing Price Index (% chg.)	28.9	32.1	1.0	-10.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.2	1.5	2.4	4.0	-	3.5	-
Two-bedroom Average Rent (October) ($)	808	958	1,034	1,035	-	1,070	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	561,300	599,100	621,100	620,000	-0.2	625,500	0.9
Employment Growth (%)	2.8	6.7	3.7	-0.2	-	0.9	-
Unemployment rate (%)	3.9	3.8	3.7	6.5	-	6.3	-
Net Migration [1]	19,944	15,773	18,600	14,500	-22.0	16,250	12.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2008 migration data is forecasted

The forecasts included in this document are based on information available as of October 1, 2009.

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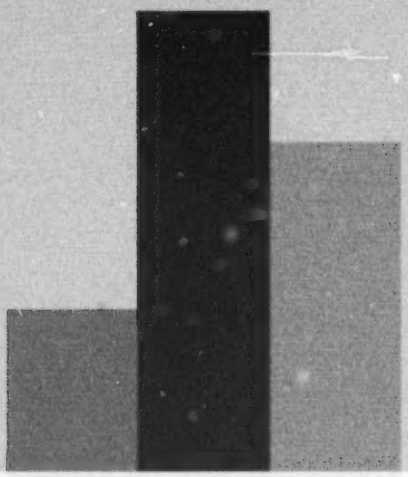

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